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REPORT

ON THE SUBJECT OF

Paying Interest on Current Deposits,

PRESENTED TO

THE BANKS IN NEW-YORK.

New-York:

W. H. ARTHUR & CO., PRINTERS AND STATIONERS,

NO. 39 NASSAU-STREET.

1858.



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✓ New York. Committee of bank officers, 1858.

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At a meeting of Officers of the Banks in the City of New-York, convened at the rooms of the Clearing House Association, at 3 o'clock. P. M., on the 5th March, 1858, at which thirty-nine Banks were represented :

THOS. TILESTON, was chosen *Chairman*, and J. L. EVERITT, *Secretary*.

The Committee previously appointed to confer with the various Banks in this City, relative to the "*discontinuance of the practice of allowing interest on current deposits,*" presented their Report, of which the annexed is a copy :

On motion of Moses Taylor, President of the City Bank, the Report was unanimously accepted and adopted as expressing the sentiments of the meeting, (with but a single dissenting voice.)

The following Resolutions, presented by A. E. Silliman, President Merchant's Bank, were then unanimously adopted :

Whereas forty of the forty-six Banks composing the New-York Clearing House Association, have already united in a written agreement no longer "*to allow interest on*

deposits or balances of any kind, either directly or indirectly, provided all the Banks composing such Association shall concur in said agreement ;” and whereas an almost entire unanimity on the subject has thus been expressed.

Resolved, That the great importance of the object proposed, and the respect which we entertain towards those members of the Association who have not yet signed the agreement, require that we give them further opportunity so to do ; and to that end it shall remain open until the 15th day of March instant, and in the meantime those who have already signed the same, do bind themselves in good faith to adhere consistently to the spirit of said agreement.

Resolved, That under the immediate pendency of this matter, it is the sense of this meeting that no member of this Association who *has* subscribed to said agreement *can*, without the violation of good faith and honorable dealing, and no member who has *not* signed *will*, under the circumstances of the case, endeavor to attract, or consent to receive, an account coming from any other member of this Association, by a promise, to allow interest on deposits either directly or indirectly.

On motion of J. Punnett, Cashier of the Bank of America, the following Resolution was unanimously adopted :

Resolved, That a Committee of *three* be appointed by the Chair to wait upon the Banks who have not signed the agreement, with a copy thereof, and urgently and respect-

fully request that they will reconsider the question, and unite with the other Banks in signing the same.

The following gentlemen were appointed that Committee, viz. :

JAS. PUNNETT, of the Bank of America.

JAS. GALLATIN, of the National Bank.

WM. F. HAVEMEYER, of the Bank of North America.

After some discussion following the passage of the above, Mr. Punnett proposed a further resolution, viz. :

Whereas, the experience of the past year has shown that the aggregate specie reserve of the Banks of this city, has at times been smaller than was consistent, with that caution and prudence which should at all times be observed by the Banking Institutions of this city : Therefore,

Resolved, That a Committee of five Bank officers be appointed to consider the measure of each Bank holding at all times not less than a certain fixed per-centage of coin to its liabilities, and to report to the adjourned meeting on the 15th instant..

The Chair appointed as that Committee.

A. E. SILLIMAN, of Merchants' Bank.

F. DEMING, of the Union Bank.

W. J. LANE, of the Fulton Bank.

H. L. JAKES, of the Metropolitan Bank.

JOHN A. STEVENS, of the Bank of Commerce.

On motion, adjourned to meet at the same place on
Monday the 15th instant, at 3 o'clock P. M.

J. L. EVERITT,
Secretary.

REPORT.

AT a meeting of several Bank Officers, called together a few weeks since, to consult upon the practice which has generally prevailed among our City Banks, of allowing interest on Deposits, the undersigned were appointed a Committee to confer with all the Banks of this city connected with the Clearing House, and invite them to unite in a written agreement, to discontinue the practice.

The Committee, in the first place, called the attention of every Bank to the subject by a printed notice, requesting their views as to the expediency of abolishing the practice. When a large number had responded favorably, your Committee prepared and presented to each Bank, for signature, the following agreement, viz. :

“ The Banks in the City of New-York, composing the Clearing House Association, do hereby agree not to allow interest on Deposits or Balances of any kind, either directly or indirectly, provided all the Banks composing such Association shall concur in this agreement. This obligation may be annulled only by a vote of two-thirds of the Banks hereunto subscribing, at a meeting specially convened for that purpose, in pursuance of a written notice.

“ And they further agree, that they will not hereafter vote for the admission of any Bank to the New-York Clearing House Association, until such Bank shall have become bound by this agreement.”

Forty of the forty-six Banks, which form the Clearing House Association, have signed this agreement.*

Such a majority, both in respect to numbers and relative importance, certainly entitles their united opinion to the most considerate regard. The Committee desire at this time to state briefly some of the reasons which have actuated them and others in their movement on this subject.

They believe that the custom of allowing interest on current deposits, is unsound in principle, unsafe in practice, and that it operates injuriously, both upon the Banks themselves and upon the commercial community.

Because :

1. Such deposits represent that portion of the floating capital of the country which is held temporarily in reserve from productive investment, waiting to be employed by its owners, as prudence and opportunity shall dictate.

* Of the remaining six :

One has expressed its entire concurrence in the action of the majority, and its willingness to sign, if required, for unanimity.

One has not had opportunity fairly to present the subject to its Board.

One has expressed its assent, with a slight modification.

Leaving the minority substantially but *three*.

They indicate to some extent the measure of discretion in the financial operations of the country, and serve to mark the bounds within which it has been deemed wise to limit commercial transactions. Such deposits bear the same relation to the business of country Banks that specie does to our city Banks, and are not legitimately the subject of profit or interest to their owners in the one case more than in the other. They both constitute, from the nature of the case, the amount of capital on hand, necessarily idle for the moment, and therefore not legitimately the subject of direct profits. All effort, therefore, to derive interest from such deposits, may be considered as an overworking of capital to its peril ; and implies a permission on the part of its owners, that the very reserve which constitutes their credit and safety, and which they themselves have deemed it prudent to withhold from use, may be placed in jeopardy by others. It is clear, also, that if the principle be correct, of deriving direct profits from reserve floating capital, and if it were carried to its logical result, there would be no reserve power whatever. The whole financial system of the country would be expanded to its utmost limit, and be subjected momentarily to destruction.

As such deposits constitute the credit and stability of the country at large, its conservative power for sudden contingencies, they should be considered an inviolable trust, free from all risk, and consequently from direct profits. Those, therefore, who insist upon receiving interest on such reserve capital, so far relinquish the idea of holding it in reserve ; but it becomes at once a special risk, and they, therefore, so far depart from the line of safety.

2. Were there no extraneous influences brought to bear upon them, it is certain that this reserve fund, at command of country Banks, would naturally be divided, mainly, into two kinds, viz: *specie in their vaults*, and *deposits in New-York, for the purposes of exchange*; and that there would consequently be scattered throughout the interior, a multiplicity of substantial resources for supplying the drain from our commercial centres, and affording a more secure basis for the financial operations of the country

Now, no one can deny, that the payment of interest on deposits in New-York, necessarily tends to increase the one portion of the reserve referred to, at the expense of the other; and from the fact that deposits in New York are equally available to those who command them in any portion of the land, they have come to be regarded as equivalent to, and have nearly superseded the use of *specie*, as a conservative resource. So that the practice of paying interest on deposits in New-York, is operating continually as a *process of exhaustion of the specie strength of the country*.

Nor can it be said that the pernicious influence which thus operates to impoverish the interior, ceases its work here. The same cause which unnaturally draws the specie to the city, continues of necessity to effect its expulsion hence, and compels its exportation.

3. No Bank, in the opinion of your Committee, can allow interest on deposits payable on demand, without danger alike to itself and to the public.

The profit is more nominal than actual—apparent than real. Take, for example, the case of a Bank paying four per cent. interest (the rate which custom has established,) on bank or bankers' balances, to the amount of one million of dollars, and allow of this, say 20 per cent., to strengthen the specie reserve, and the following result would be shown :

Interest paid on am't of deposit, \$1,000,000, is	\$40,000
Deduct 20 per cent. for reserved specie, 200,000	
	<hr/>
	\$800,000
Interest on the above \$800,000, at 7 per cent.,	56,000
	<hr/>
Leaves - - - - -	\$16,000

On the other hand, suppose a Bank has deposits *without interest* to the am't of \$300,000
 Deduct reserve for specie, - - - 60,000

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	\$240,000
On which interest at 7 per cent., is - - -	\$16,800

This result is attained without allowing for increased loss on the larger amount discounted, or for additional clerk hire, and other expenses, which more than double the amount of business necessarily involves. Were these considerations and the losses incident to the larger volume of business and *risks* allowed for, a sum even less than \$250,000, *without interest*, would be shown to be equal to a deposit of \$1,000,000, *drawing 4 per cent. interest.*

It is clear, therefore, that whatever profit is derived from business of this character, must of necessity be made by placing the largest possible proportion of such deposits on interest, or, in other words, by encroaching, in disregard of the highest prudential considerations, upon the amount which it is everywhere acknowledged should be retained for specie reserve. A Bank having committed this *first* error of paying interest on its deposits, is therefore compelled, by the necessities of its position, to take the *second* false step, and expand its operations beyond all prudent bounds.

And it may be truly stated that, were the Banks in this city arranged in the order of their actual profits and prosperity for the last four years, the majority of those *above* the average would largely consist of those who have not, as a custom, allowed interest on deposits.

4. Your Committee also insist that Banks are, properly, *lenders* of capital, and not borrowers, and that it is not one of their legitimate functions to disturb the natural current of trade by borrowing at one price, to lend at a higher. Such transactions constitute *speculation* in money, and stimulate a tendency in the community, which is dangerous to all, and which ultimately re-acts on the Banks themselves with destructive power. From the nature of their organization, they should be conservative. They are intentionally restricted in their operations within prescribed limits, which mark the bounds that long experience has fixed as commercially safe to themselves and to the community; and they cannot afford, for an apparent profit, to foster a principle which, in its final issue, will return injury for injury with accumulated force.

Banks are designed to become *permanent* institutions, and, therefore, have the highest motives to regard every influence which they exert upon the financial operations of the community, whose commercial character alone gives such institutions all their stability and life.

Banks in this city have also a common interest and cannot be isolated. The discredit or weakness of one, operates to the prejudice and injury of all, and therefore it cannot be safely conceded that any member has perfect freedom to carry into practice those principles of business which are generally acknowledged as inherently pernicious, or injurious to the whole. The experience of the last year has strikingly demonstrated the fact of mutual dependence, and we may remind some, that the practice of paying interest on deposits, was confessedly a prime cause, in more than one case, of recent embarrassment. Besides—a certain amount of specie in this city is indispensable to the safety of the commercial community, and to the existence of the Banks. Now, having established an equitable principle upon which that amount should be based, it is neither safe to itself, nor even honorable towards the others, that any Bank should embody in its practice a principle of business which prevents it from carrying its relative proportion of this specie reserve. The practical assumption, that because others are more constitutionally conservative, or possess a higher sense of their obligations to society, and that therefore, their fears will compel them to provide the amount required for the common safety, cannot be too strongly condemned. The known fact, that such a position may be effectually assumed, ought, in the opinion of

your Committee, to induce every member of this Association cheerfully to acquiesce in an agreement which at once removes the temptation and necessity of a departure from sound principles. No considerations of profit, in special cases, can for a moment compare with the benefits which every member would derive from the comfort and pleasure, and the profit also, of doing business free from the existence of this radical evil.

5. In reply to the objection that a discontinuance of interest would divert capital to other cities, your Committee would remark :

That if the Banks in other cities do not, as we believe they would, accept the testimony of our experience, we can well afford to give them opportunity to learn from their own; confident that they will, sooner or later, reach the same result.

If the payment of interest on deposits serves to attract capital *unnaturally* to this city, it is plain that it must produce unsteadiness in business, and thus operate unfavorably both upon the Banks and the community, inasmuch as that capital which flows out of its natural channel, must, in the nature of things, suddenly return again, and can only be held with great uncertainty as to its re-payment. It is in fact sure to be withdrawn at the very moment least convenient for the Banks to pay. All such forced deposits operate as a source of annoyance to the public, by promoting a feverish money market and fluctuating values. The necessity for holding them at instant command, and at the same time of keeping it employed at remunera-

ting prices, has given rise to the system of "*loans on call*," which constitutes another evil, the legitimate outgrowth of the payment of interest on deposits, and which it is believed is universally regarded as obnoxious. In fact, the Banks, having borrowed money "on call, with interest," are compelled to loan in the same manner; and thus the system is diffused throughout the entire community, causing the unnecessary rise and fall of Stocks, the inflation or contraction of our money market, and aggravates the multiplied evils, both financial and moral, of the Stock Exchange. The Banks thus become instruments of evil, to direct capital into the destructive channels of speculation, to which it would not naturally flow, because they have borrowed money which cannot profitably be used to sustain the legitimate commerce of the country.

But your Committee believe that the danger of diverting any considerable amount of substantial deposits from our Banks is greatly over-estimated, because this city has become the financial centre of the country at large, and must continue to be the main depository of its surplus funds, without such factitious inducements. The well-known fact that a deposit in New-York is as valuable as specie, in any portion of the United States, has secured the legitimate surplus deposits to this city, as the result of an inevitable law of trade. Nothing, therefore, but unhealthy competition among our Banks, has led to the payment of interest, and such competition is a gratuitous and self-inflicted injury, imposed on the Banking system by its own members. The proposed agreement to abolish the practice, amounts, then, to nothing more or less, than a

unanimous resolve to cease from destructive warfare on each other.

6. It is worthy of considerate attention, as directly bearing upon our subject, that by the rapid improvements made in travel and intercourse, this country and the commercial world, are daily becoming more and more a unit in their operations and influences, and that financial changes are everywhere becoming more sudden, and simultaneous. The experience of the last year has strikingly proved this, and it must daily become still more apparent as these improvements advance.

For the same reason the transitions of floating capital from point to point, are daily becoming more rapid and certain. The whole tendency of these improvements is also towards the centralization of commerce and capital, at such leading points as London and New-York.

Formerly, it was safe to assume that stagnation of business and release of capital, would occur in one locality, while there was activity in another, so that an *average* amount of deposits could be relied upon as permanent in New-York. But as the world's intelligence and consequent activity in commercial operations are everywhere simultaneous, and the financial current is more rapid and extensive, the focal points require a larger comparative reserve to meet contingencies of business, as they increase in power and magnitude.

As an illustration of this truth, and of the transient character of these deposits, it may not be amiss to remind

the officers of our City Banks, that during the week of financial excitement in this city in October last, the exaggerated reports of which were carried with the speed of lightning to every part of the land, this new medium of communication with equal rapidity filled our Banks with imperative orders for the immediate return of their deposits, in specie.

The necessity for holding a larger proportionate amount of specie therefore precludes the possibility of paying interest on deposits, without a continually increasing hazard. For the same reason, any unsound principles or pernicious practices in the monetary institutions of New-York, are not confined in their influences within their own walls, nor even in the city or country which permit them, but they enter at once, as elements, into the subtle atmosphere of trade, and tend, sooner or later, to produce those violent commercial revulsions which for the last year have so universally prevailed. The responsibility of greatly retarding, if not of preventing the recurrence of such calamities, is thus continually bearing more directly upon our City Banks. They are, therefore, bound by every consideration of self-interest and humanity, to ponder every measure proposed for the common good, with views and aims reaching beyond the merely *temporary* advantage supposed to be derived by any particular institution.

7. The example of Banks in Great Britain has been cited to show the correctness of the principle of paying interest. But so far as your Committee are aware, the practice of allowing interest by Joint Stock Banks, (only instituted in 1834,) differs widely from the system which prevails with us. They discriminate between a *current*

and an *interest* account, not allowing interest on the former. Since the developments in Liverpool and Glasgow during the recent crisis, of the tendency to wild and unwarrantable banking in their Institutions, it would hardly be safe to take Great Britain as a perfect model for our future financial operations, although we are glad to be instructed by the true exponents of sound principles in any country. Besides, the Banks there, other than the Bank of England, are not the point of last resort, whence the whole nation is to be supplied with coin. Their Banks bear about the same relation to the Bank of England as our Country Banks do to those of this City. It may well be doubted whether a better system than that created in this State, under the free Banking Law of 1838, and the several acts amendatory thereof, exists either in this country or in England. But the Bank of England, in which the specie strength of the country is mainly concentrated, has never allowed interest on deposits.

It is also instructive to remark, that in a recent discussion in Parliament, on the bill to legalize the suspension of the Bank Charter Act, the very practice of paying interest on deposits, even in the modified form there allowed by Joint Stock Banks, was severely censured by the Chancellor of the Exchequer, as a principal cause of the financial embarrassments in Great Britain.

The very fact also, that the Banks in New-York contain, to a greater degree than any other the concentrated deposits of the nation, and in that respect, as the ultimate resort for specie reserve, bear the same relation to this country, as the Bank of England does to the United Kingdom, and that in

its long career, that Bank has never adopted the practice, might well be adduced to confirm the opinion which our own experience has taught us. The fact also, that in our united body, we occupy that important relative position in this nation, renders it the more necessary that now in a time of tranquillity, with the memory of the evils of divided views, which prevailed during the recent crisis, clearly before us, we should unite in establishing such principles of action as shall protect ourselves and the public, as far as may be, against the recurrence of similar misfortunes.

The moral as well as financial responsibility of the Managers of our Banks is thus daily enlarging, and both duty and interest require us to yield something of what may seem temporarily advantageous to any specific interest, if we can thereby unite in establishing such simple and fundamental principles, as will make us a conservative rather than a destructive power in the nation, and prevent the degrading competition which has hitherto tended to distract our councils.

It is also evident that no just parallel can be drawn between a new country like our own, where capital is greatly disproportioned to the material necessities and commercial activity of the nation, and those of older European countries, where it comparatively abounds. Here (and the disparity becomes still more evident as we recede from the Atlantic coast, to the far interior *from* whence much of our Bank deposits is derived,) there can hardly be said to exist a reserve of capital, in any just sense as it is understood in Europe; certainly, none which can be retained in any reliable average amount, by any rate of interest

which even the most adventurous of our City Banks has ever allowed. Besides this—the well known characteristics of our nation for enterprise and adventure, and the value of money, and the multiplied and multiplying demands for its investment, ever prevent a reserve of capital on deposit in New-York, excepting such as the necessities of trade imperatively demand, and such therefore, as must of necessity pass through our Banks, whether interest on them be allowed or not.

8. Interest has been hitherto allowed mainly on accounts from abroad, which are the least valuable portion of a Bank's deposits, because,

They fluctuate most and are least reliable at the active period of the year.

They come when we want them least and go when needed most.

They are attended with more labor in correspondence and more risks from the incidents of business, such as endorsing and guaranteeing endorsements, and from forgeries and accidents of every kind.

If, therefore, the principle be correct of allowing such interest, it has always been unequally applied, and other depositors are entitled to rights which they have not received.

Banks should occupy high moral ground, and cannot discriminate with their dealers when the conditions are equal without degrading their institutions and their profession.

For the same reason, your Committee must insist, that the objection which is made to uniting with us, on the part of any Bank, "that it has but few accounts to which interest is allowed," is not sufficient to justify its position; for if they are right with the few, it has less sacrifice to make, and is wrong with the many from whom interest is withheld.

Those Banks only are really consistent who have either paid no interest at all, or have made it a rule of general application, under equal conditions of value.

The Committee desire but to refer to the further objection, that the agreement, if made, will not be faithfully kept, and to say, in reply, that they are unwilling to believe that any Bank officer who has deliberately signed this agreement, especially with the concurrence of his Board, has done so with any other than an honorable intent, or entertains a serious doubt of the good faith of others. But if it were so, the Clearing House Association has created a community of interest among our Banks, limited in numbers, and possessing means of general and special information with regard to the transactions of its respective institutions, which give it an influence in this regard, and constitute it a moral tribunal for offences against the common good, which no member of the Association would more than once venture to defy. Surely no advantage which could accrue to a gentleman in official relations, however weak his moral sense, could be sufficient to tempt him to incur the odium of public exposure before his professional friends. And if it were possible to believe that such a character existed in a place of

honorable trust, the public and private benefits derived from his exposure and expulsion, may well repay the effort which we make for higher objects.

Having thus endeavored to show, that the practice of the payment of interest on deposits by our City Banks is:

1. Inherently unsound ;
2. That it tends to weaken the legitimate commerce of the country, and to disturb the regularity of the business of the city ;
3. That no Bank can safely and profitably practice it ;
4. That it tends to interfere with the efficiency and stability of our Banks, and with the harmony of their intercourse with each other ;
5. That its discontinuance will not divert any substantial deposits from this city ;
6. That the reasons for its discontinuance are daily increasing ;
7. That it has, under like conditions, no fair precedent in older countries ;
8. That, as it exists here, it has been unjustly applied ;

Your Committee, in conclusion, have only to repeat their firm convictions, that this agreement, if consummated, will promote the highest public benefit, and ensure the greater prosperity and stability of the Banks in this city ; and that

no simple measure can be adopted of a public or legislative character, that will so effectually secure the good of the country at large, without the least admixture of evil. They therefore, on behalf of the very large majority of their associates who agree with them in these views, confidently appeal to the good sense of the minority, with this weight of opinion against their position, and leave with them the serious responsibility of defeating a measure which is deemed so important and vital to the interest of the commercial and financial community.

New-York, March 4, 1858.

WM. A. BOOTH,	}	<i>Committee.</i>
JOHN E. WILLIAMS,		
E. W. DUNHAM,		
PARKER HANDY,		

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